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BEFORE THE ARIZONA CORPORATION COMMISSION

MARC SPITZER
Chairman

JIM IRVIN
Commissioner

WILLIAM A. MUNDELL
Commissioner

JEFF HATCH-MILLER
Commissioner

MIKE GLEASON
Commissioner

Arizona Corporation Commission

DOCKETED

AUG 13 2003

DOCKETED BY

IN THE MATTER OF THE APPLICATION
OF MIDVALE TELEPHONE EXCHANGE
FOR APPROVAL OF EXTENDED AREA
SERVICE FOR ITS GRANITE MOUNTAIN
EXCHANGE SERVICE TERRITORY

DOCKET NO. T-02532A-03-0039

DECISION NO. 66171

ORDER

Open Meeting
August 12 and 13, 2003
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. On January 21, 2003, the Commission received a letter from Midvale Telephone Exchange, Inc. ("Midvale") regarding its Granite Mountain Exchange and the fact that many of the residents of the areas are concerned that the area is not included in the Phoenix Metropolitan Local Calling Area ("Phoenix Metro"). Portions of the Granite Mountain Exchange are located within the Scottsdale city limits and the remainder of the exchange is located just outside Scottsdale's northeast city limit boundary. Currently, calls between the Granite Mountain and Phoenix Metro are toll (long distance) calls.

2. In its letter, Midvale provided information related to the Granite Mountain Exchange community of interest, the cost to Midvale of providing extended area service ("EAS") to include the exchange in the Phoenix Metro Area, its central office code and number portability issues and alternative methods by which the Commission could address the implementation of EAS for customers located in the Granite Mountain Exchange.

3. Midvale indicated that it would not file an application for EAS for the area, but it provided information so that Staff could pursue the matter if Staff so desired. Midvale indicated that there was a rate case open through which the Commission could address any issues for EAS that need to be considered in the context of a rate case. In addition, Midvale indicated that the costs associated with providing EAS to the Granite Mountain Area should be provided through the Arizona Universal Service Fund ("AUSF"). Because the Granite Mountain exchange is a new exchange, a situation which does not occur frequently, Midvale suggests that the Commission consider something other than the standard procedures that currently apply to requests for AUSF disbursements, if it wants service provided to customers in unserved areas.

Description of the Granite Mountain Exchange

4. Staff has attached Exhibits and Photographs to its Memorandum on this matter. Exhibit "A" is a map that shows the locations of the northern and southern areas of the Granite Mountain Exchange, the Scottsdale city limits and the Phoenix Metro calling area boundary. The northern section of the Granite Mountain Exchange is bounded by Rio Verde Drive, 136th Street, Stage Coach Pass and 144th Street. The southern section of the Granite Mountain Exchange is bounded by 120th Street, Deer Valley Road, the McDowell Mountain Regional Park and Jomax Road.

5. Six of the nine sections (a section is equal to one square mile area) in the southern portion of the Granite Mountain Exchange are located within the Scottsdale city limits. All five sections in the northern portion of the Granite Mountain Exchange are contiguous to (although outside) the Scottsdale city limits.

6. The southern portion of the Granite Mountain Exchange is surrounded by the Phoenix Metro Local Calling Area. All five sections in the northern portion of the Granite Mountain are contiguous to (although outside) the Phoenix Metro Local Calling Area. All of the residents of the northern section are within one mile of the Phoenix Metro Local Calling Area boundary.

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7. During visits to the southern section of the Granite Mountain exchange, Staff observed that Luxor Homes is currently building houses in the southern section of the Granite Mountain Exchange.

8. During its visits to the northern section of the Granite Mountain Exchange, Staff observed that there is currently a significant amount of new construction taking place within the area.

Examination of Extended Area Service

9. Commissions generally decide whether EAS should be implemented by conducting analyses designed to determine whether a strong enough community of interest exists between exchanges to warrant EAS. One commonly used definition of communities of interest is: "contiguous geographic areas which may be recognized as separate localities but share common interests and services with respect to government, schools, health services, public safety and emergency services, and retail business"(P.U.R. Glossary for Utility Management, Public Utility Reports, Inc., Arlington, VA, 1992).

10. As a result of having visited the entire Granite Mountain Exchange, Staff was able to gain some perspective relative to the requests for EAS from residents of the area. These visits were particularly helpful in assessing the contiguity of the exchange with the City of Scottsdale and the Phoenix Metro Local Calling Area and the common services. Staff found that it was not possible to complete cell phone calls from a number of locations within the Granite Mountain service area.

Community of Interest

11. Staff reached the following conclusions regarding the Granite Mountain Exchange area community of interest:

A. The community of interest includes the City of Scottsdale.

B. There were no commercial entities in the Granite Mountain Exchange area. Scottsdale is the closest location where residents can engage in any commercial activity.

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1 C. There were no schools in the Granite Mountain Exchange area. Children must
2 attend Scottsdale or Cave Creek Schools. Cave Creek is also part of the Phoenix
Metro Local Calling Area.

3 D. The northern area (two of the five sections) is contiguous to the Scottsdale city limit
4 on the west and there are residents in an area just to the east that are currently being
served by Qwest.

5 E. The southern area's community of interest also includes the city of Scottsdale and
6 the Phoenix Metro Local Calling Area.

7 12. Based on the findings above, Staff recommends that the Granite Mountain
8 Exchange be granted mandatory two-way EAS to the Phoenix Metro Exchange Area. Staff notes
9 that this issue would never have arisen if Qwest had decided to serve that area and that outcome
10 would have benefited the customers who will be served in the Granite Mountain Exchange Area.
11 The Granite Mountain Exchange is virtually surrounded by customers who are served by Qwest.
12 Staff has also concluded that in similar situations, the Commission should consider whether it is in
13 the best interest of the customers to have the incumbent local exchange carrier that is contiguous to
14 the unserved area serve it or to allow a new company that is willing to service the area serve it.
15 Although, in the short run it may solve a problem by allowing the new company to serve that area,
16 in the long run issues such as those associated with EAS to the Granite Mountain Exchange are
17 more efficiently dealt with by having the incumbent serve that area.

18 **Cost of EAS and Cost Recovery**

19 13. While Staff recommends that the Granite Mountain Exchange be granted EAS to
20 the Phoenix Metro Exchange Area, the issue of revenue loss recovery must be addressed. Staff
21 believes that if EAS is authorized for the Granite Mountain Exchange, the residents of the area
22 should be responsible for providing the revenues that Midvale is entitled to generate as a result of
23 the Decision No. 64011.

24 14. Midvale does not provide interexchange service. Therefore, Midvale's subscribers'
25 toll calls are carried by their presubscribed interexchange carrier ("IXC"). Midvale is
26 compensated for the use of its network to carry toll calls through the assessment of access charges.
27 Under the terms of Midvale's current Access Service Tariff, IXCs are assessed a charge of

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1 \$0.1406 per minute when Midvale's customers make (originate) a toll call. IXC's are assessed a
2 charge of \$0.1468 per minute when toll calls are made to Midvale's subscribers.

3 15. Midvale has no calling data for the Granite Mountain Exchange upon which it can
4 base an actual or reasonable estimate of interexchange calling that would be affected by
5 implementation of mandatory two-way EAS to the Phoenix Metro Exchange Area. Midvale has
6 estimated that with implementation of EAS in the Granite Mountain area its Access Service
7 revenues will decline by between \$9.85 and \$11.05 per month per customer. These estimates are
8 based on EAS traffic between Midvale's Cascabel Exchange and Qwest Corporation's ("Qwest's")
9 Benson Exchange and Access Service revenues that are generated in Midvale's Young and
10 Cascabel Exchanges.

11 16. Midvale has provided information which supports the following estimates of lost
12 access revenues on an annual basis:

	Low	High
<u>Year</u>	<u>Estimate</u>	<u>Estimate</u>
2003	\$14,775	\$16,575
2004	\$21,276	\$23,868
2005	\$23,876	\$26,875
2006	\$26,240	\$29,437
2007	\$28,841	\$32,354
2008	\$31,796	\$35,669

21 17. Staff recommends that the initial monthly rate for EAS be set at \$10.45 per line on
22 an interim basis subject to true-up. This rate is the mid-point of the range of Midvale's estimate of
23 the reduction of revenues that it would expect to see as a result of the change from toll to EAS
24 calling between the Granite Mountain Exchange and the Phoenix Metro Local Calling Area. Staff
25 further recommends that the Commission order Midvale to provide information on actual EAS
26 calling volume within 18 months of the Commission's Decision in the matter. The information
27 should be provided on a monthly basis for the most recently available twelve month period. This
28 information would be used to evaluate and if necessary revise the monthly EAS charge.

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1 Area Code Options

2 18. When the state transitioned from a single area code to two, the Phoenix local calling
3 area retained the 602 area code and other areas outside of the Phoenix local calling area was
4 assigned the 520 area code. Later, when the 602 area code required relief, the 480/602/623 area
5 codes were established and their boundaries were defined along the boundaries of Qwest wire
6 centers contained within the Phoenix local calling area. Subsequently area code relief was
7 implemented for the 520 area code and the geography which comprises the Granite Mountain
8 Exchange became part of the 928 area code.

9 19. Should the Commission order that the Granite Mountain Exchange be made part of
10 the Phoenix local calling area two numbering options are possible. Option A would be that the
11 area code for the exchange could remain 928 and all calls to and from the exchange could be rated
12 as local. This option would be consistent with Decision No. 64843¹ where the Phoenix local
13 calling area was extended to include the service area of Accipiter Communications, Inc., which is
14 in the 928 area code.

15 20. Option B would be to change the area code for the exchange from 928 to 480 to be
16 consistent with that of the surrounding Qwest service area. This option would require that
17 customers who currently have service from Midvale change their telephone number. The 998
18 prefix assigned to Midvale's Granite Mountain exchange is already assigned in the 480 area code
19 and therefore would not be available for assignment to Midvale's exchange with this option.
20 However, to mitigate the impact on existing customers, Midvale could be required to have the last
21 four numbers of a customer's telephone number remain the same when its area code and office
22 code were changed.

23 21. This raises a policy issue unique to the Phoenix local calling area that arises when:
24 1) population growth occurs, 2) service is to be provided to a previously unserved area, 3) service
25 will not be provided from a Qwest wire center located within the Phoenix local calling area and 4)
26 customers in the previously unserved area desire their service area be added to the Phoenix local
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28 ¹ *In the Matter of Accipiter Communications Incorporated Motion to Amend Decision No. 59346*, Docket No. T-02847A-95-0026, May 28, 2002.

1 calling area. The policy issue to be addressed is whether to retain the default area code for the
2 unserved area (either 928 or 520) or to expand the geographic boundary of one of the existing
3 Phoenix area codes to encompass the previously unserved area (which may or may not be
4 contiguous to the Phoenix local calling area). A related scenario that raises the same basic policy
5 question regarding area code change could arise if a community in another local calling area
6 requested inclusion in the Phoenix local calling area and also desired to be associated with an area
7 code other than its current area code.

8 22. There are a variety of underlying issues that may influence the general policy to be
9 applied in the future. Among these are: 1) the effect a change would have on area code exhaust, 2)
10 whether a change in prefix as well as area code would be required, 3) cost to customers for a
11 number change, 4) cost to industry to implement the number change, 5) effect of local number
12 portability rules, 6) compatibility with number pooling, 7) the desirability of changing an area code
13 geographic boundary with subsequent changes on local calling area, 8) differing numbering
14 requirements placed on rural and non-rural local exchange carriers, 9) customer education needs to
15 minimize confusion, and 10) changes in technology that negate traditional views on number
16 assignment; such as wireless and voice over the Internet ("VoIP") to name just a few.

17 23. Given the above discussion, Staff would suggest that, barring unique circumstances,
18 continuing the policy that was established in Decision No. 64843 of not changing an exchange's
19 area code when it is added to the Phoenix local calling area is a conservative approach that should
20 minimize the impact to both customers and industry when changes are made in the scope of the
21 Phoenix local calling area. However, Staff is recommending a deviation from this policy because
22 of the unique geographic relationship between the Granite Mountain Exchange and the
23 surrounding 480 area code.

24 **Prohibition on Number Portability Between ILEC Rate Centers**

25 24. Federal Communication Commission ("FCC") rules² do not allow for numbers to
26 be ported between ILEC rate centers. Therefore, in the event that the area code for Granite
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28 ² *In the Matter of Telephone Number Portability*, Docket No. 95-116, Report and Order, (Rel. August 18, 1997)
("Second Report and Order").

1 Mountain was changed to 480, customers moving to the Granite Mountain exchange from another
2 location in the 480 area code would not be able to retain their existing telephone number if they so
3 desired. This would also be the case for customers moving from the Granite Mountain exchange
4 to another location in the 480 area code.

5 **Facility Requirements**

6 25. At the time of its filing, the Company had not performed a study of call data to
7 identify the incremental additional quantity of facilities and the associated costs that might be
8 required to carry the EAS calls. This was because no historic call data was available since service
9 in the Granite Mountain exchange has just recently been established. An assumption that might be
10 made is the quantity of planned facilities required for long distance calls will go down which
11 would offset some of the requirement for additional local (EAS) facilities. Given the small
12 number of customers in the exchange, as an initial assumption the Company and Staff agreed that
13 the quantity and cost of the incremental facilities required may be a non-material issue.

14 26. Subsequently, the Company performed an assessment of the impact from
15 implementation of EAS at another of its exchanges to facilitate estimation of facility requirements
16 for Granite Mountain.³ An additional input into estimation of the incremental quantity of facilities
17 that might be required was the impact that inward calls to the Company's dial-up Internet service
18 might have if EAS were to be approved by the Commission. It was also clarified by the Company
19 that the configuration of the switch as initially installed did not have spare capacity to
20 accommodate growth for EAS requirements.

21 27. Staff has reviewed a high-level cost estimate of the facilities that would be required
22 for implementation of EAS. The estimate included additions to the switch, additions to equipment
23 terminating the fiber facility that interconnects with Qwest and Engineering/Planning costs. The
24 total cost for the facility additions is estimated to be \$71,000. Although the estimated number of
25 T-1 circuits might be 1 or 2 high, given the modularity of the switch and an objective of insuring
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28 ³ The scope of local calling between the two scenarios is substantially different in that the EAS implementation
evaluated was to 5 rural exchanges consisting of approximately 10,000 lines versus the size of the Phoenix local
calling area.

1 that sufficient capacity is in place to prevent blockage should EAS be granted, Staff believes the
2 Company's estimate is within reasonable bounds.

3 28. The Company also provided an estimate of the interval that would be required for
4 the engineering and ordering of material from its vendors, manufacturing/delivery of material,
5 installation and testing and turn-up of the equipment. This time frame is estimated to be 3-4
6 months. Staff believes that 4 months is a realistic and achievable interval.

7 29. The Company also addressed the timing of when it would be in a position to initiate
8 orders to its vendors should the Commission grant the addition of Granite Mountain to the Phoenix
9 local calling area. The Company is currently in the process of substantial construction for the new
10 areas that its CC&N was expanded to include. The additional plant investment required should
11 EAS be ordered was not included in the Company's loan design for the Granite Mountain service
12 area. Therefore, absent another source of funding being identified, the Company believes that
13 internal funds for the necessary equipment would not be available until first Quarter 2004.

14 30. The intervals specified in the Recommendations section of this Report take into
15 account the Company's position regarding availability of funds to implement the EAS and
16 Industry requirements for notification of network changes.

17 **Staff Recommendations**

18 31. Given the unique geographic relationship of the Granite Mountain Exchange to the
19 Phoenix local calling area and given that, for the most part, it is surrounded by the 480 area code,
20 Staff would recommend that the area code of this exchange be changed to 480 should the service
21 area be added to the Phoenix local calling area.

22 32. Should the Commission determine that the Granite Mountain Exchange be added to
23 the Phoenix local calling area and its area code changed to 480 from 928, Staff recommends the
24 following:

25 A. That the Phoenix local calling area be expanded to include Midvale's Granite
26 Mountain Exchange by June 30, 2004.

27 B. That the area code for Midvale's Granite Mountain Exchange be changed from 928
28 to 480 coincident with the exchange being added to the Phoenix local calling area.

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- 1 C. That the prefix for Midvale's Granite Mountain Exchange be changed from 998 to a
2 new prefix as determined by the NANPA coincident with the exchange being added
3 to the Phoenix local calling area.
4 D. That Midvale route incoming calls to 928-998 to an intercept recording that advises
5 the caller of the new area code and prefix for the Granite Mountain Exchange
6 coincident with the exchange being added to the Phoenix local calling area and that
7 such recording will stay in place for 90 days after the change to a new area code
8 and prefix is implemented.
9 E. That Midvale not change the last four digits of a customer's telephone number in
10 the process of changing the area code and prefix for its Granite Mountain Exchange
11 customers unless a customer requests the change.
12 F. That Midvale provide notice to its customers of the changes to local calling area
13 and telephone numbers a minimum of 60 days prior to the changes being
14 implemented and that such notice shall be repeated 30 days prior to the changes.
15 G. That Midvale returns the 928-998 prefix to the NANPA by September 30, 2004⁴
16 and that Staff shall be advised of its return.
17 H. That the initial monthly rate for mandatory two-way EAS be set at \$10.45 per line
18 on an interim basis subject to true-up.
19 I. That the Commission order Midvale to provide information on actual EAS calling
20 volume within 18 months of the Commission's Decision in the matter.
21 33. Should the Commission determine that the Granite Mountain Exchange be added to
22 the Phoenix local calling area and that the 928 area code be retained for the exchange, Staff
23 recommends the following:
24 A. That the Phoenix local calling area be expanded to include Midvale's Granite
25 Mountain Exchange by June 30, 2004.
26 B. That Midvale route 1+ calls that originate in the Granite Mountain Exchange and
27 terminate to a NPA/NXX in the Phoenix local calling area to an intercept recording
28 that advises the caller that the call is a local call and also advises the caller to redial
the number without the "1" coincident with the Granite Mountain Exchange being
added to the Phoenix local calling area.
C. That the initial monthly rate for mandatory two-way EAS be set at \$10.45 per line
on an interim basis subject to true-up.

⁴ Staff recommends that the existing office code be retained by Midvale's Granite Mountain switch for a period of time after implementation of the area code and prefix change to facilitate use of an intercept recording (no supervision) to notify callers outside of the Granite Mountain Exchange of the change.

- 1 D. That the Commission order Midvale to provide information on actual EAS calling
2 volume within 18 months of the Commission's Decision in the matter.

3 CONCLUSIONS OF LAW

4 1. Midvale is an Arizona public service corporation within the meaning of Article XV,
5 Section 2, of the Arizona Constitution.

6 2. The Commission has jurisdiction over Midvale and of the subject matter in this
7 Application.

8 3. The Commission, having reviewed the tariff pages and Staff's Memorandum dated
9 June 23, 2003, concludes that it is in the public interest to grant mandatory two-way EAS to the
10 Phoenix Metro Local Calling Area for Midvale's Granite Mountain Exchange.

11 ORDER

12 IT IS THEREFORE ORDERED that the Granite Mountain Exchange be granted
13 mandatory two-way EAS to the Phoenix Metro Local Calling Area.

14 IT IS THEREFORE ORDERED that the initial monthly rate for EAS be set at \$10.45 per
15 line.

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1 IT IS FURTHER ORDERED that the Staff recommendations contained on Finding of Fact
2 No. 32 be and hereby are approved.

3 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

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5 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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8 CHAIRMAN

COMMISSIONER

COMMISSIONER

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11 COMMISSIONER

COMMISSIONER

12 IN WITNESS WHEREOF, I JAMES G. JAYNE, Interim
13 Executive Secretary of the Arizona Corporation Commission,
14 have hereunto, set my hand and caused the official seal of
15 this Commission to be affixed at the Capitol, in the City of
16 Phoenix, this 13th day of August, 2003.

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18 JAMES G. JAYNE
Interim Executive Secretary

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20 DISSENT: _____

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22 DISSENT: _____

23 EGJ:WMS:RLB:lhv/GH
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2 DOCKET NO. T-02532A-03-0039

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